

**Management of the Information Systems
Budget Has Improved, but Additional
Progress Can Be Made**

February 2003

Reference Number: 2003-20-070

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

February 28, 2003

MEMORANDUM FOR DEPUTY COMMISSIONER FOR MODERNIZATION &
CHIEF INFORMATION OFFICER

Gordon C. Milbourn III

FROM: Gordon C. Milbourn III
Acting Deputy Inspector General for Audit

SUBJECT: Final Audit Report - Management of the Information Systems
Budget Has Improved, but Additional Progress Can Be Made
(Audit # 200220036)

This report presents the results of our review of the management of the Information Systems (ISY) budget. The overall objective of this review was to determine whether corrective actions have been implemented in response to a prior Treasury Inspector General for Tax Administration report¹ related to the information systems budget appropriation processes performed by the Modernization, Information Technology and Security (MITS) Services Headquarters organization (formerly the Information Systems organization). Our current review also included an evaluation of the processing of ISY budget adjustments by MITS Services field offices.

The ISY appropriation includes funding for the Internal Revenue Service's (IRS) MITS Services operations, staff for support and management of the Business Systems Modernization effort, and investments to support the information systems of the IRS business units. The ISY budget appropriation for each of Fiscal Years 2001 and 2002 was approximately \$1.6 billion. In our prior audit, we concluded that MITS Services budget processes and controls did not provide adequate control of the approval and processing of the ISY appropriation budget adjustments.

In summary, the Deputy Commissioner for Modernization & Chief Information Officer (CIO) has developed and implemented formal processes to ensure that only ISY budget adjustments that are clearly documented, appropriately reviewed, and properly

¹ *The Information Systems Organization Can Improve Processes to Manage Its Budget Appropriation* (Reference Number 2001-20-062, dated March 2001).

approved are processed. As a result of the new processes, ISY budget adjustment processing has improved significantly.

However, there were still instances in which adjustments were not clearly documented, approved, and/or reviewed. We found this to be true for ISY budget adjustments processed by both the MITS Services Headquarters office and the field offices. These problems occurred primarily because the guidelines for processing ISY budget adjustments were not complete and always followed. To further improve the budget adjustment process, we recommended that the CIO revise guidelines for processing ISY budget adjustments and take steps to ensure the guidelines are routinely followed.

In our prior audit, we concluded that existing budget processes and controls did not provide adequate analysis of incoming ISY budget appropriation estimates or reporting of spending throughout the year. We were unable to follow up on these conditions due to changes in the MITS Services organizational structure and changes to the budget process. These changes resulted in corrective actions being delayed or no longer applicable. Please see Appendix V for further details.

Management's Response: The CIO agreed with our recommendations and responded that guidelines have been or will be clarified to ensure that MITS Services budget adjustments are processed consistently and timely. The CIO also provided monitoring plans to ensure that revised guidelines are being followed. Management's complete response to the draft report is included as Appendix VI.

Copies of this report are also being sent to the IRS managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Gary V. Hinkle, Acting Assistant Inspector General for Audit (Information Systems Programs), at (202) 927-7291.

**Management of the Information Systems Budget Has Improved,
but Additional Progress Can Be Made**

Table of Contents

Background	Page 1
Information Systems Budget Adjustment Processing Could Be Improved	Page 2
<u>Recommendations 1 and 2:</u>	Page 6
Appendix I – Detailed Objective, Scope, and Methodology	Page 7
Appendix II – Major Contributors to This Report.....	Page 9
Appendix III – Report Distribution List	Page 10
Appendix IV – Outcome Measures	Page 11
Appendix V – Corrective Actions in Process or No Longer Applicable	Page 13
Appendix VI – Management’s Response to the Draft Report	Page 15

Management of the Information Systems Budget Has Improved, but Additional Progress Can Be Made

Background

The budget cycle at the Internal Revenue Service (IRS) begins with estimates of funds needed to operate its programs in a designated fiscal year. The IRS presents these estimates to the Department of the Treasury, the Office of Management and Budget, and the Congress. The budget cycle continues with processes to allocate funds to specific IRS functions, organizations, and programs. Actual expenditures are then tracked and reported against planned expenditures.

The IRS' budget is divided into five appropriations,¹ one of which is the Information Systems (ISY) appropriation. The ISY appropriation includes funding for the Modernization, Information Technology and Security (MITS) Services operations, staff for support and management of the Business Systems Modernization effort, and investments to support the information systems of the IRS business units. The ISY budget appropriation for each of Fiscal Years (FY) 2001 and 2002 was approximately \$1.6 billion.

In 2001, the Treasury Inspector General for Tax Administration reviewed the MITS Services Headquarters' management of the ISY appropriation.² We concluded that the budget processes and controls did not provide adequate analysis of incoming budget appropriation estimates, control of the approval and processing of budget adjustments, and review and reporting of ISY spending throughout the year.³ IRS management agreed with our recommendations and planned corrective actions to address them.

In this review, we determined the status of corrective actions recommended in our 2001 review. To provide a more comprehensive assessment, we also evaluated the

¹ The five appropriations are processing, assistance, and management; tax law and enforcement; earned income tax credit initiative; business systems modernization; and information systems.

² *The Information Systems Organization Can Improve Processes to Manage Its Budget Appropriation* (Reference Number 2001-20-062, dated March 2001).

³ The results of the review relate only to processes performed by the Information Systems Organization Headquarters operations, which was later converted to the MITS Services Headquarters.

Management of the Information Systems Budget Has Improved, but Additional Progress Can Be Made

processing of ISY budget adjustments by MITS Services field offices.

We were unable to follow up on two previous recommendations due to changes in the MITS Services organizational structure and budget processes. These changes resulted in the corrective actions being delayed or no longer applicable. See Appendix V for further details on this topic.

We primarily conducted our audit work in the MITS Services Headquarters office in New Carrollton, Maryland, between June and November 2002. We also reviewed documentation from various MITS Services field offices during the same time period. The audit was conducted in accordance with *Government Auditing Standards*.

Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

Information Systems Budget Adjustment Processing Could Be Improved

The MITS Services organization develops estimates for the ISY appropriation approximately 2 years before the funds are needed for MITS Services operations. Once the budget is enacted, MITS Services officials may transfer funds in the ISY appropriation to cover budget shortages or surpluses caused by changes in program direction, changes in divisional priorities, or inadequate planning.

MITS Services officials can transfer funds in two ways.

- **Intra-appropriation Transfers –**
An intra-appropriation transfer occurs when funds are moved between different categories within the ISY appropriation.
- **Inter-appropriation Transfers –**
An inter-appropriation transfer occurs when funds are moved between the ISY appropriation and a different IRS appropriation.

During the first 10 months of FY 2002, the MITS Services organization processed about 800 ISY intra-appropriation transfers totaling approximately \$450 million (28 percent of

Management of the Information Systems Budget Has Improved, but Additional Progress Can Be Made

the total ISY budget).⁴ Also, the MITS Services Headquarters office processed 24 inter-appropriation transfers totaling approximately \$43 million.

Since the previous review, the Deputy Commissioner for Modernization & Chief Information Officer (CIO) has developed and implemented formal processes to ensure that only ISY budget adjustments that are clearly documented, appropriately reviewed, and properly approved are processed. As a result, we determined that the MITS Services Headquarters office has made significant improvements in processing ISY budget adjustments. However, about 15 percent of the budget adjustments we reviewed were processed without evidence of appropriate managerial review, approval, and/or documentation. We also found that the MITS Services organization needed to develop a more reliable standard for processing timeliness. For the field offices, budget adjustments were not always processed using established guidelines.

The MITS Services organization did not always process ISY budget adjustments in accordance with established guidelines

Our previous review found that ISY intra-appropriation transfers were processed without evidence of managerial review, approval, and/or sufficient documentation. More specifically, we found processing problems in every case we reviewed. Since that review, the MITS Services organization has significantly improved its controls over processing intra-appropriation transfers. Additionally, we found that controls over processing inter-appropriation transfers were adequate. However, there were some processing problems in both intra-appropriation and inter-appropriation transfers.

We reviewed a judgmental sample of 32 intra-appropriation transfers and 24 inter-appropriation transfers that were processed by the MITS Services Headquarters office during the first 10 months of FY 2002. The MITS Services organization provided adequate support and evidence of

⁴ Reorganization-related budget adjustments are not included in these figures.

Management of the Information Systems Budget Has Improved, but Additional Progress Can Be Made

managerial approval for about 85 percent of these transfers. However, 8 transfers totaling about \$12 million were processed without evidence of managerial review, approval, and/or sufficient documentation.

The MITS Services guidelines for processing adjustments to the ISY appropriation indicate that all adjustments should be reviewed, approved, and documented. However, the guidelines for processing adjustments to the ISY budget were not always followed.

Inadequate controls over the processing of ISY budget adjustments may affect the accuracy of the amounts budgeted for program initiatives and can affect decisions involving the development of future year budget estimates. Considering that approximately \$450 million was transferred during the first 10 months of FY 2002 between the various categories within the ISY appropriation, and \$43 million was transferred between appropriations, inappropriate or inaccurate transfers can have a significant impact on the future year budget estimates.

The MITS Services Headquarters office needs to develop a more reliable standard for processing timeliness

ISY budget adjustments should be timely posted to the budget system.⁵ Although the guidelines for processing adjustments to the ISY budget do not specifically define “timely” in terms of an acceptable number of days for processing adjustments, MITS Services officials set an informal standard of 5 business days. To measure timeliness, MITS Services officials stated that they reviewed a budget adjustment log set up for this purpose.

We reviewed a judgmental sample of 32 adjustments⁶ to the ISY appropriation to determine whether the adjustments were processed within the time period set by the MITS Services Headquarters office. Only 8 (25 percent) of the

⁵ IRS Fiscal Year 2002 Financial Operating Guidelines (dated October 2001).

⁶ The 32 adjustments are the same intra-appropriation sample items discussed in the previous section.

Management of the Information Systems Budget Has Improved, but Additional Progress Can Be Made

transactions met the informal standard, while the remainder either exceeded the informal standard or could not be evaluated due to insufficient documentation.

MITS Services officials indicated that the informal standard for processing adjustments could be unreliable because the MITS Services organization did not use empirical data to develop the standard. Also, some adjustments could not be measured for timeliness because they were not tracked on the budget adjustment log.

Without a more reliable timeliness standard and complete tracking of all adjustments, the MITS Services organization cannot determine whether budget adjustments are processed as efficiently as possible. In addition, untimely processing of budget adjustments reduces the accuracy and reliability of information contained in the IRS budget system. IRS senior officials rely on information contained in the budget system to make critical funding decisions, thus accurate and reliable budget information is essential.

MITS Services field offices did not always process ISY budget adjustments in accordance with established guidelines

We reviewed a judgmental sample of 43 intra-appropriation transfers that were processed by the MITS Services field offices and found that 19 (44 percent) totaling about \$500,000 did not have adequate support or evidence that management approved the transfers. The budget adjustment processing guidelines indicate that all adjustments should be reviewed, approved, and documented. Not adhering to controls over ISY budget adjustments may affect the accuracy of the amounts budgeted for program initiatives and can affect decisions involving the development of future year budget estimates.

MITS Services officials in the field offices indicated that not all guidelines for processing ISY budget adjustments apply to the field offices because the field offices are organized differently than the Headquarters office. While we acknowledge these differences, the budget adjustment processing guidelines do not allow for any exemptions for documenting and approving budget adjustments.

Management of the Information Systems Budget Has Improved, but Additional Progress Can Be Made

Recommendations

To ensure that adjustments to the ISY appropriation are appropriate and processed consistently, the Deputy Commissioner for Modernization & CIO should:

1. Ensure that guidelines for processing ISY budget adjustments are complete and always followed. The guidelines should be revised to separately address controls for processing adjustments in the field offices, if necessary.

Management's Response: The CIO agreed with the recommendation and responded that guidelines have been clarified to ensure that all MITS Services budget adjustments are processed consistently. The CIO also provided a plan for monitoring whether the updated guidance is being followed.

2. Require that all MITS Services Headquarters office budget adjustments be posted to the budget adjustment log to track and improve processing timeliness. Once sufficient data on time periods needed to process adjustments are captured, the CIO should incorporate more reliable timeliness standards into the guidelines.

Management's Response: The CIO agreed with the recommendation and responded that the budget adjustment log has been improved to minimize input and more accurately capture data for analysis. The Financial Management Services organization will post all budget adjustments to the budget adjustment log, update procedures for maintaining the log, and ensure that the field offices maintain a similar log. Once sufficient information is captured, timeliness standards will be incorporated into the guidelines. The CIO also provided a plan for monitoring whether the updated guidance is being followed.

Management of the Information Systems Budget Has Improved, but Additional Progress Can Be Made

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to determine whether the Modernization, Information Technology and Security (MITS) Services has implemented corrective actions in response to the prior audit of Information Systems (ISY) budget appropriation processes.¹ To provide a more comprehensive assessment, we also evaluated the processing of ISY budget adjustments by MITS Services field offices. To accomplish the audit objective, we:

- I. Determined whether the MITS Services organization had developed a formal process to review and report problems and discrepancies with the ISY budget estimates submitted by both MITS Services and Internal Revenue Service (IRS) operations budget analysts.
- II. Determined if the MITS Services organization had implemented corrective actions to ensure that financial plan changes (FPC)² were processed with appropriate supporting documentation and managerial approvals.
 - A. Determined whether the Deputy Commissioner for Modernization & Chief Information Officer had issued financial operating guidelines to ensure that FPCs were processed only when they had been appropriately reviewed and approved.
 - B. Determined whether MITS Services officials in the Headquarters office effectively ensured that all ISY FPCs submitted were properly approved and adequately supported (see the following sampling methodology).
 - C. Determined whether FPCs submitted by the MITS Services field offices were properly approved and adequately supported (see the following sampling methodology).
- III. Determined whether detailed procedures for spending reviews had been developed.

Sampling Methodology for ISY Budget Adjustments

We selected a judgmental sample from an Automated Financial System report. The MITS Services organization provided a report of all FPCs posted to the Automated Financial System between October 1, 2001, and July 19, 2002. The report contained 1,099 unique FPC transactions for both MITS Services Headquarters and field offices. We eliminated all FPCs that were not part of the ISY appropriation and all FPCs that resulted from the MITS Services reorganization. We identified 796 unique FPC transactions based on the procedures outlined

¹ *The Information Systems Organization Can Improve Processes to Manage Its Budget Appropriation* (Reference Number 2001-20-062, dated March 2001).

² An FPC is a transfer of budget funds within an appropriation to cover a budget shortage or surplus.

**Management of the Information Systems Budget Has Improved,
but Additional Progress Can Be Made**

above. We used a computer application to randomly select 75 transactions for review. The resulting sample contained 32 FPCs that were processed by MITS Services Headquarters office and 43 processed by various MITS Services field offices. To complete the sample, we selected all 24 inter-appropriation³ transactions executed between October 1, 2001, and May 23, 2002.

³ An inter-appropriation transfer occurs when funds are moved between the ISY appropriation and a different IRS appropriation.

**Management of the Information Systems Budget Has Improved,
but Additional Progress Can Be Made**

Appendix II

Major Contributors to This Report

Scott E. Wilson, Assistant Inspector General for Audit (Information Systems Programs)

Gary V. Hinkle, Acting Assistant Inspector General for Audit (Information Systems Programs)

Scott A. Macfarlane, Director

Troy D. Paterson, Audit Manager

James A. Douglas, Senior Auditor

Deadra M. English, Senior Auditor

Perrin T. Gleaton, Auditor

**Management of the Information Systems Budget Has Improved,
but Additional Progress Can Be Made**

Appendix III

Report Distribution List

Acting Commissioner N:C
Chief, Information Technology Services M:I
Director, Financial Management Services M:FM
Director, End User Equipment and Services M:I:EU
Director, Enterprise Operations M:I:EO
Chief Counsel CC
National Taxpayer Advocate TA
Director, Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis N:ADC:R:O
Office of Management Controls N:CFO:F:M
Audit Liaisons:
 Director, Financial Management Services M:FM
 Manager, Program Oversight and Coordination Office M:R:PM:PO

Management of the Information Systems Budget Has Improved, but Additional Progress Can Be Made

Appendix IV

Outcome Measures

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. These benefits will be incorporated into our Semiannual Report to the Congress.

Type and Value of Outcome Measure:

- Reliability of Information – Potential; 8 budget transfers totaling \$12,146,484 were processed by the Modernization, Information Technology and Security (MITS) Services Headquarters office without evidence of managerial review, approval, and/or sufficient documentation (see page 2).
- Reliability of Information – Potential; 19 budget transfers totaling \$565,182 were processed by the MITS Services field offices without adequate support or evidence that management approved the transfers (see page 2).

Methodology Used to Measure the Reported Benefit:

We selected a judgmental sample from an Automated Financial System report. The MITS Services organization provided a report of all financial plan changes¹ (FPC) posted to the Automated Financial System between October 1, 2001, and July 19, 2002. The report contained 1,099 unique FPC transactions for both MITS Services Headquarters and field offices. We eliminated all FPCs that were not part of the Information Systems appropriation and all FPCs that resulted from the MITS Services reorganization. We identified 796 unique FPC transactions based on the procedures outlined above. We used a computer application to randomly select 75 transactions for review. To complete the sample, we selected all inter-appropriation transactions² executed between October 1, 2001, and May 23, 2002. The resulting sample consisted of 32 intra-appropriation transfers³ and 24 inter-appropriation transfers that were processed by the MITS Services Headquarters office, and 43 intra-appropriation transfers that were processed by the MITS Services field offices.

- The MITS Services Headquarters office processed 6 intra-appropriation transfers, totaling \$9,773,171, without evidence of managerial review, approval, and/or sufficient documentation.

¹ An FPC is a transfer of budget funds within an appropriation to cover a budget shortage or surplus.

² An inter-appropriation transfer occurs when funds are moved between the Information Systems appropriation and a different Internal Revenue Service appropriation.

³ An intra-appropriation transfer occurs when funds are moved between different categories within the Information Systems appropriation.

**Management of the Information Systems Budget Has Improved,
but Additional Progress Can Be Made**

- The MITS Services Headquarters office also processed 2 inter-appropriation transfers, totaling \$2,373,313, without evidence of approval.
- The MITS Services field offices processed 19 intra-appropriation transfers, totaling \$565,182, without adequate support or evidence that management approved the transfers.

Management of the Information Systems Budget Has Improved, but Additional Progress Can Be Made

Appendix V

Corrective Actions in Process or No Longer Applicable

Budget Estimation Processes

In Fiscal Year (FY) 2001, the Treasury Inspector General for Tax Administration (TIGTA) reviewed the management of the Information Systems (ISY) budget appropriation and concluded that the budget processes and controls did not provide adequate analysis of incoming budget appropriation estimates.¹ As a result, the TIGTA recommended that the Deputy Commissioner for Modernization & Chief Information Officer (CIO) develop and implement formal processes to review and report problems and discrepancies with ISY budget estimate submissions to CIO and Internal Revenue Service (IRS) operations budget analysts.

In FY 2002, the General Accounting Office concluded that the IRS did not adequately justify over 76 percent of the ISY budget request.² Furthermore, IRS officials indicated the budget request was developed based on spending from the previous year plus an adjustment for cost-of-living and salary increases. The IRS agreed to address the weaknesses in the IRS budget formulation process for the ISY appropriation.

To improve the budget estimation process, the IRS significantly revised the budget process. The previous TIGTA recommendation was aimed at improving the process followed by the Modernization, Information Technology and Security (MITS) Services Budget Policy, Planning, and Performance office.³ The role of this office in determining the validity and completeness of budget estimates has been significantly reduced. As a result of this change, our previous recommendation is no longer applicable.

MITS Services Spending Review Process

In FY 2001, the TIGTA also concluded that the ISY budget processes and controls did not provide for adequate review and reporting of ISY spending throughout the year. As a result, the TIGTA recommended that the IRS develop procedures to conduct spending reviews.

According to the IRS, spending review guidance was created in FY 2001 as recommended. However, no guidance was issued in FY 2002 due to changes in the budget process. Instead, the IRS relied on the spending reviews conducted at the program level to assess the execution of budget plans. In addition, MITS Services officials indicated that modified spending reviews were conducted as part of the effort to revise the ISY budget estimates for FY 2002. MITS

¹ *The Information Systems Organization Can Improve Processes to Manage Its Budget Appropriation* (Reference Number 2001-20-062, dated March 2001).

² *Internal Revenue Service: Assessment of Budget Request for Fiscal Year 2003 and Interim Results of 2002 Tax Filing Season* (GAO-02-580T, dated April 2002).

³ The office was then known as the Financial Planning and Budget office.

**Management of the Information Systems Budget Has Improved,
but Additional Progress Can Be Made**

Services officials stated that spending review guidance would be created to coincide with the new budget process in FY 2003. At the end of our audit work, the new guidance was not available for review.

**Management of the Information Systems Budget Has Improved,
but Additional Progress Can Be Made**

Appendix VI

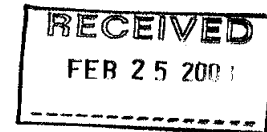
Management's Response to the Draft Report



DEPUTY COMMISSIONER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

February 25, 2003



MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX
ADMINISTRATION

FROM:

John C. Reece
John C. Reece
Deputy Commissioner for Modernization &
Chief Information Officer

SUBJECT:

Management Response to Draft Audit Report
"Management of the Information Systems Budget Has
Improved, but Additional Progress Can Be Made"
(Audit # 200220036)

The Modernization, Information Technology and Security (MITS) Services organization is committed to excellence in managing our financial resources. We continuously improve our processes to provide better service to our customers and support the IRS mission. I fully agree with your recommendations because they support this commitment.

I appreciate your recognition of the significant improvements we have made to our information systems (IS) budget adjustment process. After the audit review in 2001, we adjusted our processes to improve the overall management control and approval of the IS budget resources. We established IS Operating Guidelines to help MITS Services customers manage their resources. These guidelines streamlined processes, established timely processing of adjustments, and contained specific guidance on requesting financial plan changes or budget adjustments.

Our goal is to decrease the number of budget adjustments to the MITS Services financial plans. We work diligently during budget planning to ensure we distribute resources aligned to the Strategy and Program Plans. This eliminates the need for a significant number of budget adjustments during the following year.

Each year, the MITS Services organization faces challenges that prevent management from meeting its program objectives. MITS Services makes sound decisions on balancing appropriations because our processes ensure the financial integrity of our IT investments. In FY 2002, MITS Services received a \$50M reduction to its budget. Therefore, we were forced to review and reprioritize our previously committed program initiatives and reduce our commitments accordingly. Overall, MITS Services continues to best meet its overall program objectives, given the financial resources appropriated.

**Management of the Information Systems Budget Has Improved,
but Additional Progress Can Be Made**

2

Our attached corrective actions address your recommendations to strengthen our internal MITS Services Financial Guidelines and processes as they relate to the Chief Financial Officer Financial Guidelines.

If you have any questions, please call me at (202) 622-6800, or Thomas Mulcahy, Manager, Program Oversight and Coordination Office, at (202) 283-6063.

Attachment

Management of the Information Systems Budget Has Improved, but Additional Progress Can Be Made

Attachment

Management Response to Draft Audit Report "Management of the Information Systems Budget Has Improved, but Additional Progress Can Be Made" (Audit # 200220036)

Recommendation #1

To ensure that adjustments to the ISY appropriations are appropriate and processed consistently, the Deputy Commissioner for Modernization & Chief Information Officer (CIO) should ensure that guidelines for processing ISY budget adjustments are complete and always followed. The guidelines should be revised to separately address controls for processing adjustments in the field offices, if necessary.

Assessment of Cause

Based on TIGTA's recommendation in the FY 2001 audit, MITS Services established Financial Operating Guidelines as well as Financial Plan Change guidance to assist the MITS customers with processing budget adjustments. Financial Management Services did not conduct a review to ensure that offices followed the process. As a result, there were inconsistencies in the process.

Corrective Action #1

We agree with your recommendation. Financial Management Services (FMS) revised the MITS Services Financial Operating Guidelines to include clear guidance on requesting Financial Plan Changes or budget adjustments. We also updated the guidance to ensure that all MITS Services controls, including the field services and non-MITS Services customer controls, were consistent when processing adjustments.

Financial Management Services will ensure that offices are following the updated guidance by April 1, 2003.

Implementation Date of Corrective Action #1

Completed:

Proposed: April 1, 2003

Responsible Official for Corrective Action #1

Deputy Commissioner for Modernization & Chief Information Officer M
Director, Financial Management Services M:FM

Monitoring Plan for Corrective Action #1

The Execution Policy and Programs (EPP) management will review all financial plan change request documents processed in EPP office monthly, and field office status reports quarterly, to ensure that offices are following the MITS Services Financial Operating Guidelines, that required controls are in place, and that the appropriate manager or manager designee approved each request. Additionally, to emphasize the importance of following the guidance, EPP will reiterate the process at quarterly meetings of budget execution contacts.

Management of the Information Systems Budget Has Improved, but Additional Progress Can Be Made

Attachment

Management Response to Draft Audit Report "Management of the Information Systems Budget Has Improved, but Additional Progress Can Be Made" (Audit # 200220036)

Recommendation #2

To ensure that adjustments to the ISY appropriations are appropriate and processed consistently, the Deputy Commissioner for Modernization & Chief Information Officer (CIO) should require that all MITS Services Headquarters office budget adjustments be posted to the budget adjustment log to track and improve processing timeliness. Once sufficient data on time periods needed to process adjustments is captured, the CIO should incorporate more reliable timeliness standards into the guidelines.

Assessment of Cause

We established the Financial Plan Change (FPC) log in FY 2001 as a performance measure to track the timeliness of processing budget adjustments for the MITS Services headquarters office. Financial Management Services (FMS) did not consistently review the log to ensure that offices were following the procedures or timely updating the log.

Corrective Actions #2a and #2b

2a. The Financial Management Services (FMS) organization has improved the Financial Plan Change Log to minimize input and more accurately capture data for analysis. FMS will post all budget adjustments processed in MITS headquarters office, including inter-appropriation transfers, to the FPC Log. FMS will update the Standard Operating Procedures to include internal procedures for maintaining the FPC log. FMS will also ensure that the field services maintain a similar log to capture all budget adjustments they process.

2b. Once FMS captures sufficient information in the log to determine the time it takes to process budget adjustments, we will incorporate timeliness standards into the guidelines.

Implementation Dates of Corrective Actions #2a and #2b

2a. Completed:	Proposed: April 1, 2003
2b. Completed:	Proposed: August 1, 2003

Responsible Official for Corrective Actions #2a and #2b

Deputy Commissioner for Modernization & Chief Information Officer M
Director, Financial Management Services M:FM

Monitoring Plan for Corrective Action 2a and 2b

The Execution Policy and Programs (EPP) management will perform the following reviews and take any required corrective actions.

- Review monthly the log of all Financial Plan Changes (FPCs) processed for MITS headquarters office to ensure the log is consistent with the FPC request documents.
- Review quarterly field services FPC Logs to ensure the field follows guidelines established in the Standard Operating Procedures.